

CAPSTONE MORTGAGE OPPORTUNITIES FUND

Q2 Commentary

CAPSTONE
ASSET MANAGEMENT™

JUNE 30, 2021

AT A GLANCE

- Construction and development mortgages in Canada
- Diversified by developer and development type
- Terms are 3-36 months
- Low to no correlation to bond and equity markets
- Liquidity is accommodated twice per year (January and July) with 90 days' notice
- \$108 MM AUM
- Current price: 103.3191 (Class F)

MARKET & FUND UPDATE

The Capstone Mortgage Opportunities Fund LP generates interest income for investors by providing construction financing to reputable Canadian developers known for quality projects and providing achievable business plans. Therefore, it can deliver solid returns with excellent security. This portfolio is entirely located in the province of Ontario and, more specifically, concentrated in the Greater Toronto Area (GTA).

The real estate market through the first half of 2021 has been characterized by strong demand for properties, very low housing supply, and low borrowing rates. Prices rose quickly through the first quarter then price volatility flattened through the second. The volume of sales took a similar path seeing home sales skyrocket earlier in the year as buyers sought to lock down homes before mortgage rates increased. This pace has calmed somewhat in recent months. Another noteworthy occurrence was the CMHC reversing stringent standards it had implemented last year, even as the mortgage stress test rate for both uninsured and insured borrowers was raised from 4.79% to 5.25%. The latter was intended to ensure that mortgages remain suitable for those who are financially vulnerable to interest rate increases, however, it will also impact affordability for marginal buyers. Nevertheless, 2021 has seen a robust real estate market in the GTA and it seems unlikely to weaken any time soon.

Between March 31st and June 30th of this year the Capstone Mortgage Opportunities Fund Class F returned 1.83% to investors. This is close to its historical quarterly average of 1.97%. In recent months Ontario's lockdown measures have started to ease and mortgages that had gone into extension due to COVID-19 related delays are now maturing. As a result, the cash position in this mortgage portfolio continues to be higher than normal and we expect this trend to persist into Q3 2021.

Ontario's 2020 construction real estate market started out mired in uncertainty but the demand for quality, affordable homes was high by the end of the year. Despite this promising trend, compared to historical norms, the mortgage market has not yet matched the pace to which we are accustomed. The availability of new opportunities remains strong, but at Capstone we are proceeding with caution, and we are willing to walk away from projects that fall short of our established criteria. We believe this conservative approach will safeguard the risk profile of this portfolio and benefit investors in the long run. Furthermore, as fragile situations stabilize, reserves have been created to ensure the portfolio is valued fairly month over month. If the market continues as it has been, the portfolio remains on track to return a projected 8% in 2021.

If you would like to find out more about this Fund, please talk to your Portfolio Manager.

This is not an offer to sell securities. The Subscription Documents and Information Memorandum should be read carefully as they contain important facts about risks, liquidity, fees and expenses. Past performance may not be repeated.

PERFORMANCE (Net of Fees)

Performance figures are those of Class F units as of June 30, 2021. Performance is annualized for periods longer than one year.



1 MO.	3 MO.	6 MO.	1 YR.	3 YR.	5 YR.	INCEPTION*
0.54%	1.83%	3.94%	7.50%	8.18%	7.76%	8.21%

* Annualized as of first trade date July 15, 2014